

# Notes from the Field: Interview with Texas Development Finance Manager

**T**he Federal Reserve Bank of Dallas recently interviewed David Danenfelzer, manager of development finance at the Texas State Affordable Housing Corporation (TSAHC), a nonprofit organization established by the state of Texas in 1994 to serve the housing needs of low-income families and other underserved populations in Texas. TSAHC's programs support sustainable homeownership, affordable housing development and foreclosure prevention programs statewide. Danenfelzer provided insights into housing trends in Texas with a focus on low- and moderate-income (LMI) households.

## **Q: What types of funding and financing are being used to maintain or increase the supply of rental housing for LMI households?**

A: Tax credits, bonds and—a distant third—government funding.

Tax credits are still king because of what they bring to the table. Low-income housing tax credits (LIHTCs) and other tax credits are trending up in value and attracting more investor interest.

However, we are starting to see that many properties originally financed with LIHTCs have met their 15-year affordability requirement. While some nonprofit developers are trying to maintain affordability after the 15-year requirement, a large number of for-profits are opting out. Under state and federal rules, they must market the properties to nonprofits first, but if there are no buyers, then the properties can be sold to any new owner without continuing the affordability restrictions on the property.

Now let's look at bonds. An interesting challenge right now is that the relationship between taxable and tax-exempt debt is not what it normally has been. Taxable yields currently are lower than tax-exempt yields, even though the latter's original



David Danenfelzer

purpose was for investors to earn less interest in exchange for not paying tax on that interest. Taxable bonds are also less expensive to issue—because of regulatory and legal factors—than tax-exempt bonds. This upside-down situation has caused considerable disruption in the use of bond financing for affordable rental housing.

## **Q: What is the trend in vouchers used for single-family and multifamily rental housing?**

A: One trend we've seen over the last eight to 10 years is programs that enable tenants who hold vouchers to buy homes. Those programs, offered by many local public housing authorities, have slowed down over the last couple of years but will probably go back up with the housing and mortgage markets and as more voucher holders develop the ability to maintain homeownership on their own.

A lot of public housing agencies are using tenant-based rental vouchers. Renters receive a voucher for a portion of the market rent that can be used at any property that accepts vouchers. HUD [the U.S. Department of Housing and Urban

Development] supports this option because tenants can move to where the better schools and jobs are.

## **Q: Are community development corporations (CDCs) and other nonprofits building rental housing for LMI households?**

A: The CDC share of new housing units has remained relatively stable. Access to federal or state subsidies is now more limited. Many CDCs have slowed down a little or decreased their growth goals, just like for-profit developers. But the more successful CDCs have maintained a steady flow of new units and projects. Some examples are:

- Central Texas: Foundation Communities has continued to produce LMI and extremely-low-income housing over the past five to six years. The group just completed M Station, a 133-unit apartment complex in central East Austin, and is planning another next year. Texas Housing Foundation has been active even during the economic downturn in smaller markets. It may not be doing as much as before, but it has been active and done an amazing job in managing its existing portfolio.
- Dallas–Fort Worth metropolitan area: Tarrant County Housing Partnership, Citywide CDC and Builders of Hope have all continued to stay active, especially in their response to foreclosures and acquisition/rehabilitation development.
- Houston: Covenant Community Capital and New Hope Housing, which does single-resident-occupancy facilities for extremely-low-income residents, have both been very active in the Houston market.
- The Valley: Affordable Homes of South Texas and CDC of Brownsville, which historically have been the main single-family developers in Hidalgo and Cameron Counties, respectively, are seeking to enter the multifamily rental market and are rebounding in single-family production as well.
- El Paso: Tierra Del Sol, which is based in New Mexico and works a lot in El Paso, and El Paso

Collaborative are both busy and looking for new deals.

- Across Texas: Cesar Chavez Foundation, which is based in California, works in Texas a lot and has been recapitalizing properties.
- National nonprofits that have invested in Texas: Rainbow Housing, which is based in San Francisco, has bought many existing affordable properties; American Opportunities Foundation, which is based in Atlanta, has increased its portfolio in Texas; Neighborhood Development Corporation has stabilized existing properties over the last couple of years by putting capital improvements in properties to maintain them or make them more attractive to new investors.

**Q: Who are the investors in rental housing for LMI households and has the number of investors changed?**

A: There are three investment groups: the government, banks and private investors. Government investing has tapered off. Government entities don't provide subsidies as large as they used to in order to spread funding around to more units or projects, but these subsidies have less impact as construction costs increase each year. Banks have been very restrictive in lending, but private investors are coming back.

**Q: How would you describe homeownership trends in Texas?**

A: We've seen a gradual step back from homeownership as a first choice or option for most households over the past few years, largely due to tighter credit conditions. For example, the minimum credit score for a mortgage applicant has gone from 580 to 640. People who lost their jobs even temporarily could hurt their credit scores by not paying their bills in full and on time, and may find they can't access new credit.

A second obstacle to homeownership is the down payment required for a mortgage loan. Potential homeowners are having a hard time saving the 10 to 20 percent down payment for a conventional loan, or perhaps even the 3.5 percent required for an FHA [Federal Housing Administration] loan. Some down-payment assistance programs are available. Our programs offer a 5 percent grant toward down payment and

closing costs to borrowers qualifying under our Professional Educators, Texas Heroes and Home Sweet Texas Home Loan programs.

We are seeing increases in home sales in some markets, such as Austin, Dallas and Houston. There is a lot of activity compared to the last three to four years in these markets. There has also been a real upturn in smaller-market areas that have been strongly impacted by the oil, gas and wind industries. There are very large investments in these energy resources across our state, from

Victoria to the border along the Interstate Highway 77 corridor. For example, the Eagle Ford Shale is about 80 miles outside of San Antonio, and we are seeing a high demand for housing there because of the number of good-paying jobs.

—Elizabeth Sobel Blum and Julie Gunter



The Texas State Affordable Housing Corporation (TSAHC) has created a virtual toolbox for consumers who are considering homeownership. Its Texas Financial Toolbox is a searchable database for consumer resources including financial education and credit counseling, homebuyer education, foreclosure-prevention counseling and homeownership programs such as down-payment assistance.

When creating the website, TSAHC invited municipalities and nonprofit organizations offering any of these homeownership services to post their programs, classes and other services directly to the database. For example, when searching for homebuyer education services in Dallas, a list is provided that includes Business and Community Lenders of Texas, the city of McKinney, the Dallas County Home Loan Counseling Center and the Urban League of Greater Dallas. A Texas Mortgage Calculator tool is included in the toolbox to help potential homebuyers establish a price range for an affordable mortgage.

For information on listing in the toolbox, representatives of homeownership organizations may contact Paige Omohundro at TSAHC, [pomohundro@tsahc.org](mailto:pomohundro@tsahc.org), or submit their program information directly at [www.texasfinancialtoolbox.com](http://www.texasfinancialtoolbox.com).